

DIRECT TESTIMONY OF

ALLEN W. ROOKS

ON BEHALF OF

DOMINION ENERGY SOUTH CAROLINA, INC.

DOCKET NO. 2019-239-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Allen W. Rooks, and my business address is 220 Operation Way, Cayce, South Carolina. I am Manager of Electric Pricing and Rate Administration for Dominion Energy South Carolina, Inc. (“DESC” or the “Company”).¹

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I graduated from the University of South Carolina in May 1995 with a Bachelor of Science degree in Business Administration with a major in Management Science. In May 2002, I earned a Master of Business Administration degree from the University of South Carolina. I joined SCANA Corporation full-time in July 1996 and have held analytical positions within the Rates & Regulatory and Financial Planning Departments. I have participated in cost of service studies, rate development and design, financial planning and budgeting, rate surveys, responses to regulatory information requests, and rate

¹ South Carolina Electric & Gas Company (“SCE&G”) changed its name to Dominion Energy South Carolina in April 2019, as a result of the acquisition of SCANA Corporation by Dominion Energy, Inc. For consistency, I use “DESC” to refer to the Company both before and after this name change.

1 evaluation programs primarily for the Company's electric operations. I assumed
2 my present position with SCANA Services, Inc. in April 2014, and have stayed in
3 this position with DESC. I am a member of the Southeastern Electric Exchange
4 Rates and Regulation Section and served as Chairman of the group during the
5 2013 calendar year.

6 **Q. WHAT ARE YOUR DUTIES WITH DESC?**

7 A. As Manager of Electric Pricing and Rate Administration, I am responsible
8 for designing and administering the Company's electric rates and tariffs to
9 comply with regulatory orders and relevant state statutes.

10 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?**

11 A. Yes. I have testified before the Public Service Commission of South
12 Carolina (the "Commission") in previous proceedings.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. The purpose of my testimony is to sponsor the proposed Rider to Retail
15 Rates - Demand Side Management ("DSM"), to be effective December 1, 2019.
16 As proposed, this rate rider will maintain the currently approved cost recovery
17 mechanisms with four proposed changes, explained below.

18 **EXPLANATION OF PROPOSED DSM RATE RIDER**

19 **Q. WHAT IS THE PURPOSE OF THE DSM RATE RIDER?**

20 A. It is my understanding that S.C. Code Ann. § 58-37-20 authorizes the
21 Commission to allow DESC to establish rates that ensure that the net income of
22 an electrical utility after implementation of DSM measures is at least as high as
23 the net income would have been if the measures had not been implemented. The

1 DSM rate rider accomplishes this statutory requirement by allowing DESC to
2 recover its costs spent on DSM programs along with lost revenues and an
3 incentive equal to a portion of the customer savings created by the Company's
4 DSM programs.

5 **Q. PLEASE EXPLAIN THE DESIGN OF THE RATE RIDER.**

6 A. As more fully explained below and as described in Exhibit No. ____
7 (AWR-1) attached to this testimony, the proposed rate rider allows DESC to
8 recover its DSM program costs, net lost margin revenue, and a shared savings
9 incentive associated with offering DSM programs to its customers. These
10 amounts are recovered through application of a charge per kilowatt hour ("kWh")
11 that is specifically calculated for each customer class. The rate rider also includes
12 an opt-out provision for certain customers that meet the specified eligibility
13 requirements.

14 **Q. IS DESC SEEKING SIGNIFICANT STRUCTURAL CHANGES TO THE**
15 **CURRENT DSM RATE RIDER?**

16 A. No, DESC generally seeks to continue to apply the rate rider as it was
17 approved in Order No. 2010-472 and Order No. 2013-826. We are proposing four
18 limited modifications. Those modifications are: shortening the amortization
19 period for recovery of DSM balances; changing the carrying cost applied to
20 unrecovered DSM balances; increasing the shared savings percentage; and
21 shortening the period during which eligible non-residential customers are
22 prevented from opting out of the program and from the rate rider after receiving
23 DSM program benefits.

1 **Q. IS THE COMPANY REQUESTING ANY CHANGES IN RATES BE**
 2 **MADE IN THIS PROCEEDING?**

3 A. No. If the Commission approves the Company's requested changes, those
 4 changes would not impact the rate rider until the Company's next annual DSM
 5 update proceeding, which will be filed in January 2020. Under the terms of Order
 6 No. 2010-472 and Order No. 2013-826, any changes in rates ordered in that
 7 proceeding would be effective for bills rendered on and after the first billing cycle
 8 of May 2020.

9 **Q. IN TOTAL, HOW ARE THESE CHANGES ANTICIPATED TO AFFECT**
 10 **THE RATE RIDER IN 2020?**

11 A. Based on these changes, along with projections for program spending,
 12 forecasted energy savings, and net benefits, the projected increase for residential
 13 customers using 1,000 kWh/month will be from \$124.35 (using current rates) to
 14 \$124.81, or \$0.46 per month² or 0.37%.

15 **PROPOSED CHANGES TO PROGRAM COST RECOVERY**

16 **Q. WHAT CHANGE DOES THE COMPANY PROPOSE TO THE**
 17 **AMORTIZATION PERIOD FOR PROGRAM COSTS IN THE RATE**
 18 **RIDER CALCULATIONS?**

19 A. The Company requests a three-year amortization period for program costs,
 20 rather than the current five-year amortization period. With a shorter amortization
 21 period, recovery of program expenses is more timely. Rates more closely track

² The actual change in the residential DSM factor equates to a \$0.47 per month increase in the 1,000 kWh electric bill, as specified in the Company's application, but the application of the Tax Rider approved in Commission Order No. 2018-804 reduces the impact to \$0.46 per month.

1 program expenses year to year. Price signals to customers and stakeholders are
2 clearer. This shorter period helps counteract the inherent lag in rate recovery of
3 program costs under the rate rider.

4 **Q. PLEASE EXPLAIN THAT INHERENT LAG.**

5 A. Each Program Year begins on December 1st and ends the following
6 November 30th. The balance of unrecovered costs accumulated through
7 November 30th is used to determine the amortization amount included in the rate
8 rider beginning the following May and continuing through the next April billing
9 month (this May to April period is referred to as the Recovery Period in the
10 Company's annual DSM update filings). As a result of this timing difference, a
11 scenario is created where there is the possibility of a lag in the initiation of
12 recovery that is as long as 17 months for some costs, or as short as 5 months lag
13 in the initiation of recovery for other costs. Given a five-year recovery period,
14 this scenario results in a 65 month to 77 month lapse of time before full recovery
15 of program costs occurs. Shortening the amortization period reduces this delay to
16 a 41 to 53 month time period.

17 **Q. HOW WOULD THIS CHANGE AFFECT BALANCES HELD FOR**
18 **RECOVERY UNDER THE RATE RIDER?**

19 A. Reducing the amortization period to three years will reduce the amount of
20 DSM costs that are accumulated as a regulatory asset and carried on DESC's
21 books. This is particularly important during a period when spending is increasing
22 on DSM programs, as the Company is proposing here. Increased spending
23 increases the balance of costs being deferred for future recovery. Using the

1 current spending projection while maintaining a five-year amortization period is
2 projected to result in a balance of approximately \$146.6 million in deferred costs
3 awaiting recovery in 2024. With a three-year amortization period, the 2024
4 balance of deferred costs is projected to be approximately \$102.4 million, a
5 reduction of approximately 30%.

6 **Q. HOW WOULD THIS CHANGE TO THE AMORTIZATION PERIOD**
7 **AFFECT THE RATE RIDER IN 2020?**

8 A. All other things being equal, in the 2020 rate rider update, the change in
9 the amortization period would increase the estimated amount of amortization cost
10 being recovered from a typical residential customer using 1,000 kWh/month from
11 \$0.90 per month to \$1.51 per month, an increase of \$0.61 per month.³

12 It is important to note that shortening the amortization period changes the
13 timing of the recovery and reduces carrying costs, but does not reduce the amount
14 of underlying program costs to be recovered. The actual program costs recovered,
15 over time, remains the same. Carrying costs, however, will be less over time with
16 the shorter amortization period proposed here because unrecovered balances will
17 be lower.

18 **Q. PLEASE EXPLAIN THE PROPOSAL TO USE THE COMPANY'S**
19 **EMBEDDED COST OF LONG-TERM DEBT AS THE CARRYING COST**
20 **ON UNRECOVERED DSM AMOUNTS.**

21 A. In Order No. 2010-472 and Order No. 2013-826, the Commission has
22 allowed DESC to apply carrying costs to the balance of unrecovered amounts

³ Estimated bill impacts shown here are for illustrative purposes and have not been adjusted for the Tax Rider.

1 subject to amortization through the rate rider. This is in accord with the terms of
2 S.C. Code Ann. § 58-37-20, which provides that energy suppliers shall be allowed
3 “to recover costs and obtain a reasonable rate of return on their investment....”

4 The Company’s currently approved weighted average cost of capital was
5 set in Order No. 2012-951 at 8.20% after tax. The Company’s weighted average
6 cost of debt as of June 30, 2019, is 5.95%.

7 In past DSM proceedings, the Company has agreed to a carrying cost
8 equal to the ten-year U.S. Government Treasury Note rate plus 65 basis points.
9 That rate, as of July 31, 2019, is 2.665%.

10 Considering the expansion of DSM investment that is proposed here and
11 the size of the deferred balances, the Company requests that the carrying cost be
12 set prospectively at its weighted average cost of debt. While this is an increase in
13 return, the request is conservative in the sense that, all other things being equal,
14 the cost of capital that would apply to comparable investments in generating
15 assets would be the higher weighted average cost of capital, which per the last
16 Commission rate order is 8.20%. The weighted average cost of debt is 27%
17 lower. The Company believes that moving the carrying cost to a rate that is closer
18 to its weighted average cost of capital is consistent with the statutory mandate that
19 investment in DSM programs should be at least as financially attractive as
20 investments in generating assets.

21 **Q. WHEN WOULD THIS PROPOSED CHANGE TO THE CARRYING**
22 **COST RATE GO INTO EFFECT?**

1 A. The Company's proposal for changing the carrying cost rate would take
2 place on December 1, 2019, to align with the implementation of the new and
3 expanded programs.

4 **PROPOSED CHANGES TO SHARED SAVINGS INCENTIVE**

5 **Q. PLEASE EXPLAIN THE COMPANY'S REQUEST CONCERNING THE**
6 **SHARED SAVINGS INCENTIVE.**

7 A. The Commission has consistently allowed the Company to recover an
8 incentive on its DSM investment that represents a small portion of the savings
9 customers receive. The incentive is calculated based on customers' projected
10 savings over the life of each measure using the Utility Cost Test and is trued up to
11 reflect benefits as verified through the annual third-party Evaluation,
12 Measurement, and Verification ("EM&V") Report of program results. The current
13 shared savings incentive is equal to 6% of customers' net savings. The
14 Commission approved this shared savings incentive in Order No. 2010-472 and
15 Order No. 2013-826.

16 **Q. IS THE COMPANY REQUESTING ANY CHANGES TO THE SHARED**
17 **SAVINGS INCENTIVE?**

18 A. Yes, as Company Witness Raftery explains, DESC requests for the shared
19 savings incentive to be increased to 11.5%. This increase is in keeping with the
20 expansion of the program and the shared saving rates allowed for other utilities.

21 **Q. WHAT IS THE MAGNITUDE OF THE INCREASE IN DOLLARS?**

22 A. Increasing the shared savings incentive from 6% to 11.5% will increase
23 the projected incentive from \$1,462,160 to \$2,802,474 for all retail electric

1 classes in Program Year (“PY”) 10. The Company believes that this approximate
2 \$2.8 million incentive, against total projected program costs for PY10 of \$22.2
3 million, represents a reasonable incentive. Customers will receive 88.5% of the
4 benefits generated by the Company’s DSM investment during the program year.

5 The typical residential customer bill would increase by \$0.02 per month
6 (after the shared savings incentive is amortized into the rate calculation over a
7 five-year period) as a result of this change; however, residential customers will
8 receive benefits with a net present value of \$9,017,653, or approximately \$0.23
9 per month (after a five-year amortization), due to the DSM investment made in
10 PY10.⁴

11 **OPT-OUT PROVISION**

12 **Q. PLEASE EXPLAIN THE EXISTING OPT-OUT PROVISION FOR NON-**
13 **RESIDENTIAL CUSTOMERS.**

14 A. An eligible non-residential customer may opt out of the DSM programs
15 and the cost recovery mechanism by filing a written request with the Company
16 stating that the customer has already implemented or will be implementing
17 alternative DSM and energy efficiency measures. For purposes of determining
18 opt-out eligibility, a non-residential customer is defined in the Rider to Retail
19 Rates – Demand Side Management Component by reference to the Company’s
20 Rate 23 tariff for Industrial Power Service without the imposition of any
21 minimum contract demand requirement. Thus, opt out is available to any
22 customer that is classified in the major industrial group of manufacturing with 10-

⁴ Estimated bill impacts shown here are for illustrative purposes and have not been adjusted for the Tax Rider.

1 14 or 20-39 as the first two digits of the Standard Industrial Classification (“SIC”)
2 or 21 or 31-33 as the first two digits of the six digit North American Industry
3 Classification System (“NAICS”) and that uses the Company’s standard service
4 for power and light requirements.

5 Also, non-residential accounts that have both (i) annual consumption of
6 1,000,000 kWh or greater in the billing months of the prior calendar year and (ii)
7 52-59 as the first two digits of their SIC or 44-45 as the first two digits of their six
8 digit NAICS code are eligible to opt out. Currently, a customer who has
9 participated in a DSM program may not opt out and avoid being charged for DSM
10 recovery under the rate rider for five years, the period over which the DSM costs
11 incurred on behalf of the customer would be recovered.

12 **Q. WHAT MODIFICATION TO THE OPT-OUT PROVISION IS THE**
13 **COMPANY REQUESTING?**

14 A. The only modification that the Company proposes to the opt-out provision
15 is to change the period during which a customer must remain in the program after
16 accepting benefits. The purpose of the “no opt-out” period is to require customers
17 who accept DSM benefits to remain subject to the rate rider during the time that
18 costs associated with those benefits are being collected. If the amortization of
19 DSM costs is reduced from five to three years, the “no opt-out” period should also
20 be reduced to three years. This change is reflected in the proposed rate rider
21 attached as Exhibit No. ____ (AWR-1) to my testimony and is demonstrated in the
22 redline version of the rate rider attached as Exhibit No. ____ (AWR-2) to my
23 testimony.

1 **Q. UNDER THE COMPANY’S PROPOSAL, WOULD EXISTING NON-**
2 **RESIDENTIAL CUSTOMERS WHO HAVE OPTED OUT OF THE DSM**
3 **PROGRAMS BE REQUIRED TO RENEW THEIR OPT-OUT**
4 **NOTIFICATION?**

5 A. No. The Company proposes that, if the Commission authorizes the
6 continuation of the DSM programs and the rate rider as requested in this Docket,
7 the opt-out notifications presently in effect for non-residential customers pursuant
8 to the process authorized by Order No. 2010-472 and Order No. 2013-826 would
9 continue in effect without further action required by the customer.

10 **ANNUAL REVIEW PROCESS**

11 **Q. IS THE COMPANY PROPOSING ANY MODIFICATION TO THE**
12 **EXISTING PROCESS OR TIMETABLE FOR THE ANNUAL REVIEW**
13 **OF DSM PROGRAMS AND ADJUSTMENTS TO THE RATE RIDER?**

14 A. No. The Company is not proposing any change to the practice presently
15 established by Order No. 2012-472 and amended by Order No. 2013-826 for
16 annual review of the DSM program and adjustments to the rate rider.

17 **RATE RIDER CORRECTIONS**

18 **Q. IS THE COMPANY PROPOSING ANY ADDITIONAL CHANGES TO ITS**
19 **DSM RATE RIDER AT THIS TIME?**

20 A. Yes. The Company would like to point out two inadvertent errors in its
21 DSM rate rider that it wishes to correct in this proceeding:

22 1) Under item “C =” on page 1 of the rider, “Weighted Average Cost of
23 Capital” has remained in the Rider for its entirety, even though the Company has

1 been applying Carrying Costs using the ten-year U.S. Government Treasury Note
2 rate plus 65 basis points in accordance with Commission Order No. 2015-307.
3 Based upon the Commission's final order in this proceeding, the Company will
4 correct the rider to show the proper carrying cost rate; and

2) Under the “Definitions” section on page 2 of the rider, the Company has omitted Rate 15 from the “Medium General Service” category of rate schedules. Currently, there are no retail electric customers taking service under this rate schedule, but, nonetheless, the DSM Component is a part of the charges shown on that rate schedule, and as such, Rate 15 should appear in this section.

10 **CONCLUSION**

11 Q. WHAT IS THE COMPANY ASKING OF THE COMMISSION IN THIS
12 PROCEEDING WITH REGARDS TO THE RATE RIDER?

13 A. DESC seeks approval to continue the rate rider approved in Order No.
14 2010-472 and Order No. 2013-826 with the following changes:

- 15 a) The unrecovered balance of DSM program costs would be
16 amortized for rate recovery over a three-year period, instead of a
17 five-year period;
18 b) The carrying costs rate applied to the unrecovered balance of DSM
19 program costs, as approved in Commission Order No. 2015-307,
20 would be changed to the Company's embedded cost of long-term
21 debt; and
22 c) The shared savings incentive would be increased to 11.5%, in
23 accordance with S.C. Code Ann. § 58-37-20, to provide the
24 Company with a reasonable financial incentive to continue to
25 implement effective DSM programs.

26 The Company further requests that if the amortization period for DSM
27 recovery is changed to three years, customers who choose to participate in the

1 DSM programs not be allowed opt out of the program, and the rate rider, for three
2 years, not five years as is currently required.

3 Finally, the Company requests that the Commission approve the updated
4 rate rider, with proposed changes and corrections, attached as Exhibit No. ____
5 (AWR-1), to be effective December 1, 2019.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes, it does.